- Jection (25 June) of Pakistan terms for settlement Kabul riot dispute (incident was 30 March) has left situation in which both sides now striving to improve respective bargaining positions.
  - A. Saudi Arabian and Egyptian mediators
    threw in sponge after Afghans rejected
    Pak terms, went home.
  - B. Paks forthwith tightened embargo on Afghans, announced (28 June) preparations sever diplomatic relations.
    - Afghans, in turn, played trump by signing 5-year transit agreement with USSR.

Agreement, if put into action, would permit conduct of Afghan foreign trade despite airtight Pak blockade.

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- A. Paks face serious internal political, economic problems; wish decks cleared of this sort distracting international squabble.
- III. Pak ambassador in Kabul saw Afghan king
  (Zahir Shah) 12 July and recited "misdeeds
  of commission and omission" of Daud government in hope reopening situation after
  failure Saudi mediation effort.
  - A. Afghan king, though country pinched by Pak embargo, refused abandon

    Pushtoonistan propaganda but recognized it should be dignified, not inciting to hatred and violence.
  - B. Added he constitutional monarch and therefore unable take direct action, but would set forth his views to Daud.

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C. Ming most courteous and gracious and made no threats about turning to USSR, suggesting Afghan-Soviet transit agreement being held more as bargaining point than anything else.

- IV. Pak government now studying ambassador's report.
- V. Way seems open for further maneuvers ending in Afghan promise to curb Daud if Paks will agree Afghan right continue "dignified" propaganda.

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